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UNCLAS SECTION 01 OF 04 SEOUL 001879

SENSITIVE

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SUBJECT: NORTH KOREA ECONOMIC BRIEFING - NOVEMBER 2009

¶1. (U) This cable is sensitive but unclassified and not/not intended for Internet distribution.

In This Issue

-- Cabinet Considers New Economic Campaign
-- Economic "Informationalization" Declared Key to Success
-- DPRK Modernizes Steel Complex
-- English Classes in Pyongyang Gaining Popularity
-- UN Experts Allege Evades Sanctions
-- China Approves Tumen River Development
-- China Stops Publishing DPRK Trade Figures
-- DPRK-Hong Kong Trade from January to September 2009 Surges
-- ROKG Tightens Import Procedures of DPRK Sand, Anthracite and Mushrooms
-- Inter-Korean Trade Rises for Two Straight Months
-- ROKG Sets Aside Budget for DPRK Aid
-- ROKG Supports DPRK Environmental Improvement
-- U.S. NGO Helps DPRK Housing Project
-- French NGO Helps Anti-DPRK Radio Stations

Domestic Economy

¶2. (SBU) Cabinet Considers New Economic Campaign: North Korea's cabinet recently discussed plans for the "100-day campaign" to boost steel production, according to the North's state-run daily, Minju Chosun on October 27. This campaign was launched in late September, which followed immediately after the end of the 150-day campaign. The original 150-day campaign was an effort launched by the DPRK in April 2009 to establish an economically powerful country by 2012. The cabinet members also discussed accelerating the construction of large and medium-sized power plants to address persistent electricity shortages. North Korea's Premier, Kim Yong-il, said that if the 100-day campaign is a success by year's end, it will be a "great revolutionary turning point."

¶3. (SBU) Economic "Informationalization" Declared Key to Success: In a recent edition of Chollima (an influential DPRK monthly magazine), the DPRK emphasized "informationalization" in economic management and activities in order to become an "economic power." In its article titled "Informationalization of Economic Management and Administrative Activity," it stated that "in order to meet the demands for science and technology development in the era of the information industry, improvement of socialist economic management

has emerged as an important issue." The article also noted that while construction of basic facilities was an urgent task, computers and IT resources should be a priority in order to "informationalize" economic management and administrative activities. The government should then modernize communication equipment. Further development of basic management systems in education, information theory research, systems engineering, legal administration, and other economic science fields would also be necessary. North Korea's state-run Rodong Sinmun has also recently emphasized "informationalization," referring to the current era as the "information economy age" and the "informationalization age."

¶4. (SBU) DPRK Modernizes Steel Complex: Chosun Sinbo, a pro-North Korea newspaper based in Japan reported November 20 that North Korea's largest steel mill, Kim Chaek Steel General Complex (KCSGC) has recently modernized. KCSGC claims to have produced pig iron with domestically produced fuels such as anthracite and lignite, whereas in the past, it had to import coal for fuel. According to Chong Yong-choon, manager of the steel mill complex, "KCSGC has successfully solved technical problems enabling production of pig iron by operating a large-sized blast furnace." Chong also said KCSGC plans to install a larger blast furnace by 2012. In addition, a large-sized oxygen generator was installed to improve furnace efficiency. The DPRK is currently refurbishing the largest furnace at the KCSGC. Chosun Sinbo claims that the KCSGC in November 2009 will produce the largest volume of steel in recent years.

¶5. (SBU) English Classes in Pyongyang Gaining Popularity: Many North Koreans living in Pyongyang have enrolled in foreign-language classes offered at the Grand People's Study House, according to a

SEOUL 00001879 002 OF 004

recent monthly magazine published by the Chosun Sinbo. English is the most popular foreign language, followed by Chinese and Russian. North Korean authorities plan to introduce more English courses to meet the soaring demand. DPRK expert, Dr. Cheong Seong-chang at the ROK Sejong Institute, said English is a major tool that enables North Koreans to earn cash abroad. Cheong went on to say that, "In North Korea, men involved in foreign trade and export industries are considered the most eligible bachelors since they work closely with Europeans and Southeast Asians and therefore need to speak English when doing business." Cheong also speculated the popularity of English as a second language could be related to the anticipated next leader's (Kim Jung-un, third son of Kim Jong-il who has spent several years overseas) personal traits and ambitions.

¶6. (SBU) UN Experts Allege DPRK Evades Sanctions: According to a recent report released by the United Nations panel responsible for implementing UN Security Council Resolutions pertaining to the DPRK, the DPRK continues to evade UN sanctions and import luxury goods for its leadership. In July 2009, Italy blocked the sale of two yachts destined for North Korean leader Kim Jong-il. Generally, North Korean companies and banks circumvent UN sanctions by conducting business through subsidiaries. The report said illicit arms sales have increasingly become one of the country's principal sources of foreign currency. The six-person UN panel said the DPRK exported arms to Africa, Southeast Asia, the Middle East and Latin America, yet only a small percentage of North Korea's arms trade has been reported. The UN experts group will continue to monitor North Korea's implementation of the UNSCR and plans to finalize its report in May 2010 by drawing up a list of North Korean firms, individuals and goods to be added to the sanctions program.

Foreign Trade and Investment

¶7. (SBU) China Approves Tumen River Development: The Chinese government has approved development of the Tumen River Delta to boost cross-border cooperation in the Northeast Asian region, according to China Daily. In 1995, China, Russia, the DPRK, the ROK, and Mongolia ratified the agreement on the Establishment of the Cooperation Commission for the Tumen River Economic Development Area supported by the United Nations Development Program. Japan participated as an observer. In 2005, the five countries agreed to extend the agreement for another ten years and expand the area to

the Greater Tumen Region in an effort to strengthen cooperation for economic growth and sustainable development. The Tumen River basin runs along North Korea, China and Russia's borders and is the center of Northeast Asia transportation and trade, according to the ROK-based daily, Hankyoreh. The plan includes the development of a Changchun-Jilin-Tumen (all in China) economic belt, which would be facilitated by new high-speed rail service between Tumen and Changchun and a highway connecting Jilin with Rason and Chongjin in the DPRK. There are also plans for an oil refinery in Hunchun (China) that would process 10 million tons per year. A delegation of DPRK scholars who attended a recent seminar at China's Yanbian University regarding the Tumen River project expressed great interest in the project. However, a South Korean expert voiced concerns that China intends to pull the DPRK into its economic sphere through the Tumen River Development project and other recent economic initiatives. China has already agreed to build a new bridge over the Amnok (Yalu) River, which would aid development of China's three Northeastern provinces, including Jilin, by easing access to North Korea's natural resources. It would also secure a distribution route that includes Rason and Chongjin (DPRK).

¶8. (SBU) China Stops Publishing DPRK Trade Figures: According to the Chinese Customs Office (CCO), China has stopped publishing bilateral trade figures of the DPRK. Previously, the CCO released China's trade figures with the DPRK on a monthly basis. However, in its release on November 10, destination and origin statistics on China's imports and exports for September, 2009 gave no separate numbers for the DPRK, for the second straight month since August, ¶2009. A Chinese official at the CCO said without further clarification, "We are no longer issuing trade data regarding the DPRK." Thus, CCO produces monthly bilateral figures with all countries except the DPRK. Analysts have used Chinese statistics to gauge economic ties between China and the DPRK.

SEOUL 00001879 003 OF 004

¶9. (SBU) DPRK-Hong Kong Trade from January to September 2009 Surges: Hong Kong's two-way trade with the DPRK from January to September 2009 totaled USD 23.2 million, almost double that of 2008, according to recent figures released by the Hong Kong Trade Development Council. Hong Kong's exports to the DPRK in the period amounted to USD 22.1 million, a 247 percent increase from 2008, while imports from the DPRK totaled USD 1.1 million, a 30 percent drop. Major items that Hong Kong shipped to the DPRK included pharmaceuticals, measuring instruments, telecommunication equipment, and electronics. Imported goods included gold, silver, fresh vegetables, cigarettes and watches.

Inter-Korean Economic Cooperation

¶10. (SBU) ROKG Tightens Import Procedures of DPRK Sand, Anthracite and Mushrooms: The Ministry of Unification (MOU) announced October 27 that it will tighten procedures for importing sand, anthracite, and mushrooms from the DPRK. These items will now require MOU approval prior to leaving the North. Previously, ROK importers of these items reported to the ROK Customs Service when these goods reached the border. The MOU believes these new measures will improve transparency in inter-Korean trade. Sand was the largest import item from the DPRK, while anthracite was the ninth largest in ¶2008.

¶11. (SBU) Inter-Korean Trade Rises for Two Straight Months: Inter-Korean trade rose for the second straight month in October 2009, according to figures released by the MOU. Trade between the two Koreas in October 2009 rose six percent to USD 173 million. South Korea's exports to the DPRK rose 12 percent to USD 72 million, while imports from the DPRK increased two percent to USD 101 million. The MOU indicated that the upward trend can be attributed to continuing recovery in global trade conditions since July 2009 and improved inter-Korean relations due to Inter-Korean Red Cross talks and reunion of separated families at Mount Geumgang in October ¶2009. Cross-border restrictions were also removed on September 1, ¶2009.

Foreign Aid

¶12. (SBU) ROKG Sets Aside Budget for DPRK Aid: According to the 2010 budget submitted to the National Assembly on November 13, MOU will allocate 1.18 trillion won (USD 1.02 billion) for aid to the DPRK. While the MOU has announced that there is no immediate plan to resume aid to the DPRK, the MOU's budget contains funding for humanitarian aid projects. USD 532 million, (a 14.2 percent decrease from this year; USD 621 million due to lower international grain prices) out of the total budget for humanitarian aid, has been allocated for the possible resumption of rice (400,000 metric tons) and fertilizer (300,000 metric tons) aid to the DPRK. Such large-scale aid shipments were suspended after President Lee Myung-bak took office in early 2008. NOTE: When aid is allocated but not spent, such as in 2008, the funds stay in the Inter-Korean Cooperation Fund for future use.

¶13. (SBU) ROKG Supports DPRK Environmental Improvement: South Korea's Ministry of Environment (MOE) plans to contribute USD 850,000 to the Environment Trust Fund operated by the United Nations Environmental Program (UNEP) to improve the environment in the DPRK. The MOE had previously contributed USD 850,000 to the UNEP Fund in 2007 for such work in the DPRK. The fund will go toward improving the water quality of the Daedong River, construction of eco-friendly houses, and training environmental management specialists in the DPRK.

¶14. (SBU) U.S. NGO Helps DPRK Housing Project: In a November 11 ground-breaking ceremony near Pyongyang, the U.S.-based Fuller Center for Housing launched a partnership with North Korea's Paektusan Academy of Architecture (PAA) to build 50 new houses. The PAA will help manage the project, while professionals from the United States and North Korea will work together to develop energy efficient and environmentally sensitive housing plans.

SEOUL 00001879 004 OF 004

¶15. (SBU) French NGO Helps Anti-DPRK Radio Stations: According to the November 14 Voice of America, Reporters Sans Frontiers (RSF), a France-based NGO, plans to contribute USD 380,000 to three radio programs based in the ROK -- Open Radio for North Korea, Free North Korea Radio and Radio Free Chosun. The stations all produce and transmit shortwave programs into North Korea. The funds will be spent on program production, shortwave transmission and personnel.

STEPHENNS